

Special Report
Comparative Analysis of Tax Effort

October 2000

City Auditor's Office
City of Kansas City, Missouri

October 18, 2000

Honorable Mayor and Members of the City Council:

This report examines Kansas City's tax structure, ability to generate revenue, and level of taxation compared to nine other cities in the metropolitan area and region. We do not make recommendations in this report, but provide the information to the mayor, City Council, and city management as they tackle the difficult issues of what city services to provide and how best to pay for them.

We conclude that Kansas City's tax structure is sound. Among its strengths are a variety of tax sources; with no single tax providing more than a third of the city's tax revenues. This balance contributes to reliability – revenues have not fluctuated from year to year. Revenue growth has been strong, producing \$447 million in tax revenue in fiscal year 1999, and the city's major taxes are efficient to administer.

The tax structure does pose some disadvantages, however. Sales and utility taxes are regressive, falling more heavily on lower income families, and sales tax rates in the city are among the highest in the metropolitan area.

Measures of the city's social and economic condition are also relatively strong. We examined these measures because they affect both the city's capacity to raise revenue and its expenditure needs. Kansas City's income and employment compare favorably with our urban comparison cities, but lag area suburbs. The city's population has grown in the 1990s, reversing the trend of the 1980s. Kansas City's economy is diverse and growing. The city holds the largest number of jobs in the metropolitan area, and the number of jobs has increased, although more slowly than in the metropolitan area.

Kansas City's overall level of local taxation is relatively high compared to the metropolitan area and regional cities included in our study. The city's tax effort, a measure of taxes collected as a proportion of city taxable resources, is the highest among our comparison cities, and about 41 percent higher than the midpoint of the 10 cities. While a relatively high tax effort is neither good nor bad, it can be considered a constraint on levying additional taxes. Our tax effort measure does not consider the mix of services provided, nor does it consider other funding mechanisms such as fees.

We sent a draft report to the city manager and the acting finance director on August 22, 2000, for review. We appreciate the courtesy and cooperation of city staff, especially management intern Jacob Cowan, who helped us compile information. The team for this project was Joyce Patton, Joan Pu, and Amanda Noble.

Mark Funkhouser
City Auditor

Special Report: Comparative Analysis of Tax Effort

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Introduction

Objectives

We conducted this special report pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

This study describes and assesses the city's tax structure, capacity to generate revenue, and overall level of taxation. The purpose of the study is to provide information to the mayor, City Council, and city management as they tackle the difficult issues of what city services to provide and how best to pay for them. The study addresses the following questions:

- What are the advantages and disadvantages of Kansas City's tax structure?
- How is the city's tax burden distributed across different groups of taxpayers?
- How does the city's tax effort compare to other cities in the metropolitan area and region?

Scope and Methodology

We describe the city's tax structure in relation to advantages and disadvantages we identified through research. We examine socioeconomic indicators because these are related both to the city's capacity to raise revenue and to pay for needs. Finally, we compare the overall level of taxation in the city to nine other metropolitan area and regional cities by calculating *tax effort*, a measure of taxes collected as a proportion of the capacity to generate tax revenue.

To calculate tax effort, we followed the methodology developed by the New York City Independent Budget Office.¹ Because we used some

¹ *Taxing Metropolis: Tax Effort and Tax Capacity in Large U.S. Cities*, New York City Independent Budget Office, February 2000.

different sources of data and estimation methods, our results are not directly comparable to the New York study. Our methods are fully described in Appendix A.

We selected nine comparison cities in the metropolitan area and region based on the following criteria:

- The three largest cities in the metropolitan area besides Kansas City based on 1998 population estimates – Kansas City, Kansas (Unified Government of Wyandotte County); Independence, Missouri; and Overland Park, Kansas.
- The three fastest growing cities in the metropolitan area with populations greater than 10,000, based on population change between 1990 and 1998 –Lee’s Summit, Missouri; Olathe, Kansas; and Leawood, Kansas.
- Three cities that the Kansas City Area Development Council identified as competitors – St. Louis, Missouri; Wichita, Kansas; and Oklahoma City, Oklahoma.

We calculated tax effort for these cities and their overlapping jurisdictions for fiscal year 1999, the most recent year for which data were available.

We conducted our work in accordance with applicable government auditing standards, except the City Auditor’s Office has not undergone an external peer review within the last three years.² Our methods included:

- Reviewing literature and interviewing experts, including city staff, regarding public finance, taxation, and tax policy.
- Reviewing the state constitution and statute to identify the city’s authority to tax.
- Reviewing the city charter and code to identify the city’s authority to tax, and definitions and current rates of the city’s major taxes.
- Analyzing city revenues for fiscal years 1980 through 1999.

² Our last peer review was completed in April 1995. An external review is scheduled for January 2001.

- Selecting economic and demographic indicators and collecting data for Kansas City and comparison cities.
- Estimating tax effort for Kansas City and comparison cities.

We offer no recommendations in this report, but provide the information for the mayor, City Council, and city management to use in making decisions about city taxes. No information was omitted from this report because it was deemed privileged or confidential.

Background

Legislative Authority

The city has no inherent power to tax. The state constitution and statute give cities the authority to impose as many as 12 taxes on items such as income, property, and sales. Taxes must be used for public purposes, uniform within the same class, and imposed within the territorial limits of the city levying the tax. The state constitution and statutes limit the tax rates cities may impose and require voter approval to institute new taxes or tax increases.

Definition and Rates of Major Taxes

Earnings and profits tax. The city levies a one percent tax on employee gross compensation and business net profits. The tax applies to earnings of all Kansas City residents and earnings of nonresidents working within the city. The rate has not changed since 1970 – one percent is the maximum rate that may be imposed under state statute.

The city collected about \$146 million in earnings tax revenue in fiscal year 1999, accounting for about 32 percent of the city's tax revenue.

Sales and use taxes. Sales and use taxes are assessed on retail activity. The city currently levies a total sales tax rate of 2 percent. Three one-half cent sales taxes support capital improvements, debt service, and public mass transportation. An additional one-half cent sales tax to renovate the Liberty Memorial ran from April 1999 through September 2000.

The city collected about \$105 million in sales and use tax revenue in fiscal year 1999, accounting for about 23 percent of the city's tax revenue.

Utility taxes. The city imposes license and franchise fees on companies that sell electricity, natural gas, steam and chilled water for heating and cooling, telephone service, and cable television. The quarterly license fees are based on gross receipts. The utility tax for electricity, gas, and telephone service is about 9 percent for residential sales and 10 percent for commercial and industrial sales.³ The tax rate for cable television is 5 percent, and for steam and chilled water is 4 percent.

The city collected about \$70 million in utility tax revenue in fiscal year 1999, accounting for about 15 percent of the city's tax revenue.

Property taxes. The city levies property taxes on the assessed value of improved and unimproved land, personal property, and footage on or abutting boulevards. State statute sets the assessment ratio. Residential real property is assessed at 19 percent of value; agricultural real property is assessed at 12 percent of value; and utility, industrial, commercial, railroad, and all other real property is assessed at 32 percent of value. Personal property, such as an automobile, is assessed at 33.3 percent of value.

The city's current property tax rate is \$1.35 per \$100 assessed valuation. (See Exhibit 1.) Additionally, the city levies a tax of \$0.50 per \$100 assessed value of land excluding improvements for parks districts and \$0.25 per \$100 assessed value of land excluding improvements for trafficway districts. The city levies a special assessment of \$1 per front foot on properties on boulevards.

Exhibit 1. Property Tax Levy Per \$100 Assessed Valuation

| | 1997 | 1998 | 1999 | 2000 | 2001 | Statutory Limit |
|-------------------|------|------|------|------|------|--------------------|
| General Operating | 0.70 | 0.67 | 0.68 | 0.67 | 0.67 | 1.00 |
| Health Levy | 0.50 | 0.48 | 0.49 | 0.49 | 0.49 | 0.49 |
| Debt Service | 0.17 | 0.17 | 0.17 | 0.14 | 0.17 | NA |
| Museum | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.10 |
| Total | 1.39 | 1.34 | 1.36 | 1.32 | 1.35 | |

Sources: Ordinance 951102 (committee substitute); 961044; 971158 (committee substitute); 980950; 991044 (committee substitute); and 001065 (committee substitute).

Besides statutory limits on the property tax rates, the state constitution limits the total amount of taxes that may be imposed in any fiscal year.

³ The base rate is 6 percent of gross receipts. An additional "emergency tax" of 3 percent of residential sales and 4 percent of commercial and industrial sales is imposed on telephone services and gas and electricity sales over a given amount per month. There are some exemptions for large sales to any single user in a quarter. Portions of the utility tax on steam and chilled water are also defined as an emergency tax, but the rates are the same for residential, commercial and industrial sales. The rate of the cable television franchise fee is imposed by federal law.

A majority vote is required to levy property tax rates that produce more revenue than the previous year (assessed valuations of new construction, new personal property, and newly annexed areas are exempt). The state does not limit the tax rate for payment of principle and interest on municipal bonded debt.

The city collected about \$69 million in property taxes in fiscal year 1999, accounting for about 15 percent of the city's tax revenue.

Convention and tourism. The city levies hotel and restaurant taxes to fund expansion and operation of Bartle Hall and neighborhood tourism and development. Hotel taxes are based on 6 ½ percent of the amount of sales or charges (excluding sales tax) for all sleeping rooms paid by the transient guests of hotels, motels, and tourist courts. The hotel tax increased January 1, 2000, from 5 ½ percent. Restaurant taxes are 1 ¾ percent of the gross receipts derived from the retail sales of food.

The city collected about \$23 million in convention and tourism tax revenue in fiscal year 1999, accounting for about 5 percent of the city's tax revenue.

Gaming. The city does not assess any gaming taxes, but receives a portion of the state tax. Under state law licensees must pay the state gaming commission a \$2.00 admission fee for each person embarking on an excursion gambling boat; \$1.00 of which is paid to the home dock city or county. The state also imposes an adjusted gross receipts tax of 20 percent, the home dock city or county receives 10 percent of the adjusted gross receipts tax collections.

The city collected about \$16 million in gaming tax revenue in fiscal year 1999, accounting for about 3.5 percent of the city's tax revenue.

Occupational license fees. Chapter 40 of the Code of Ordinances identifies types of businesses that must be licensed. The base and rates vary – some of the fees are based on gross receipts, some are based on number of employees, number of vehicles, or number of days in operation.

The city collected about \$14 million in occupational license revenue in fiscal year 1999, accounting for about 3 percent of the city's tax revenue.

Analysis

Summary

Kansas City's tax structure is sound. The city relies on a variety of tax sources; no single source provides more than a third of the city's tax revenues. This balance contributes to reliability – total revenues have not fluctuated from year to year. Revenue growth has been strong, producing \$447 million in tax revenue in fiscal year 1999. The city's major taxes are efficient to administer; costing less than 3 cents per dollar collected.

The tax structure poses some disadvantages. Several of the city's taxes, particularly sales, earnings, and utility taxes, are regressive – falling more heavily on lower income families. The city's relatively high sales tax rates and imposition of an earnings tax could influence businesses' and residents' decisions about where to locate or shop. However, taxation is one of many factors influencing location decisions and relatively low property taxes could offset potential effects of other taxes.

Kansas City's income and employment compare favorably with our urban comparison cities, but lag area suburbs. Relatively high income and low unemployment enhance revenue-raising capacity and reduce expenditure pressures. The city's population has grown in the 1990s, reversing the trend of the 1980s. However, population as a proportion of the metropolitan area has declined. Kansas City's economy is diverse and growing. The city holds the largest number of jobs in the metropolitan area and the number of jobs has increased, although more slowly than in the metropolitan area.

Kansas City's overall tax effort is relatively high compared to the other local governments included in this study. The city's tax effort, a measure of taxes collected as a proportion of city taxable resources, is the highest among our comparison cities and about 41 percent higher than the ten-city median. While a high tax effort is neither good nor bad, some might view it as a constraint on levying additional taxes.

Kansas City's Tax Structure Is Sound

Kansas City's tax structure is sound. The city's diverse set of taxes produces a system that is balanced, reliable, and appears adequate to

meet basic needs. The city's major taxes are efficient to administer: earnings, property, sales, and utility taxes each cost less than 3 cents per dollar collected. Compliance for taxpayers is simple, as well. The city's financial reporting provides accountability for tax revenue and its use.

While the overall tax structure is sound, the structure poses some disadvantages. Some of the city's taxes are regressive, falling more heavily on people with lower incomes. The occupation license is relatively inefficient to administer and difficult for taxpayers to understand. Imposition of an earnings tax and relatively high sales tax rates could influence businesses' and residents' decisions about where to locate or shop. Relatively low property tax rates and the balance of different revenue sources lessen the potential for economic distortions.

Balanced Tax Structure Contributes to Reliability

The city's tax structure is based on a variety of sources. This balance contributes to reliability – stable revenue flows and consistent tax rates. The structure also produces a substantial amount of revenue.

The city's tax structure is balanced. The city relies on a broader variety of taxes than the other cities we selected for comparison. No single tax accounts for more than a third of the city's revenue. This balance of revenue sources helps ensure reliability – overall revenue levels are less subject to down swings in the economy than when taxes are concentrated at a few sources. (See Exhibit 2.)

Exhibit 2. Kansas City's Mix of Taxes

| Type of Tax | 1980 | 1990 | 1999 |
|-----------------------------------|-------|-------|-------|
| Earnings & Profits | 31.6% | 32.3% | 31.6% |
| Sales | 17.7% | 24.2% | 19.3% |
| Utility and Franchise | 22.8% | 19.1% | 15.1% |
| General Property | 15.6% | 16.2% | 15.0% |
| Licenses and Permits ⁴ | 8.5% | 7.3% | 5.4% |
| Convention and Tourism | 0.0% | 0.0% | 5.0% |
| Local Use | 0.0% | 0.0% | 3.5% |
| Gaming | 0.0% | 0.0% | 3.5% |
| Other | 3.7% | 0.8% | 1.6% |

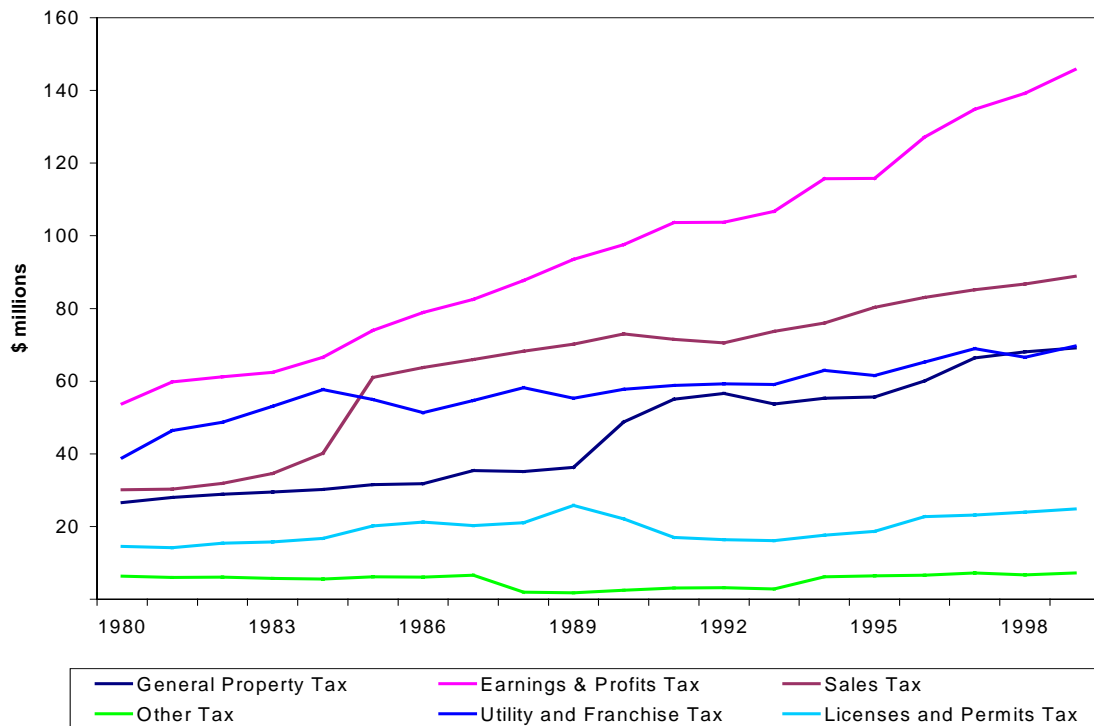
Sources: 1989 and 1999 Kansas City Comprehensive Annual Financial Reports.

The city's tax structure is reliable. Kansas City's tax revenues have been relatively stable over time, without year-to-year fluctuation. While some sources of revenue have been relatively flat, the earnings tax,

⁴ Occupation license revenues account for the major portion of this category which also includes some permits, such as street excavation and street closure permits, that are not taxes.

Analysis particularly, has shown good growth. Tax revenues increased 25 percent between 1995 and 1999, outpacing inflation. (See Exhibit 3.)

Exhibit 3. Kansas City Tax Revenue by Source, 1980-1999



Sources: 1989 and 1999 Kansas City Comprehensive Annual Financial Reports.

Kansas City's tax structure appears to generate revenues adequate to meet basic needs. Kansas City collected about \$447 million in tax revenue in fiscal year 1999. While adequacy is largely a political question that depends on perceived needs and desired levels of services, our budget reviews over the past few years have shown the city manager has increased funding for City Council priorities and has reduced maintenance backlogs.

Kansas City's taxes generate substantial amounts of revenue. Kansas City collected more tax revenue per capita than any of our comparison cities except for St. Louis. When considering total local taxes collected per capita, which includes those paid by city residents to overlapping jurisdictions such as counties, school districts, and special districts, Kansas City ranked second behind Leawood. (See Exhibit 4.) These measures suggest that Kansas City's tax structure produces a relatively high amount of revenue, but does not consider residents' capacity to pay taxes or the taxes paid by nonresidents. Later in this report, we discuss the overall level of taxation using a measure of tax effort that incorporates ability to pay and the export of taxes to nonresidents.

Exhibit 4. 1999 City and Local Taxes Collected Per Capita

| Jurisdiction | City Taxes | | Local Taxes | |
|--------------------------|--------------|----------|--------------|----------|
| | Per Capita | Rank | Per Capita | Rank |
| St. Louis | 1,075 | 1 | 1,519 | 4 |
| Kansas City | 1,011 | 2 | 1,827 | 2 |
| Unified Government (KCK) | 792 | 3 | 1,151 | 7 |
| Oklahoma City | 622 | 4 | 1,039 | 8 |
| Leawood | 563 | 5 | 2,028 | 1 |
| Lee's Summit | 560 | 6 | 1,441 | 5 |
| Overland Park | 520 | 7 | 1,824 | 3 |
| Olathe | 496 | 8 | 1,268 | 6 |
| Wichita | 416 | 9 | 998 | 9 |
| Independence | 345 | 10 | 924 | 10 |

Sources: City and county financial reports.

The Major Taxes Are Administratively Efficient

Kansas City's major taxes have low collection costs and are relatively simple to pay. The earnings, property, sales, and utility taxes each cost less than 3 cents per dollar collected to administer. Mechanisms also make compliance with these taxes fairly easy.

Withholding and flat rate simplify earnings tax. The city collects most earnings taxes through employer withholding. According to the Finance Department, collection costs are about 2 percent of taxes collected. Because the tax is a flat rate on earnings without deductions, and most taxes are withheld, compliance is also simple. However, the simple structure of this tax, which does not include income from investments, makes this tax less equitable than a state or federal income tax.

Overlapping jurisdictions share property tax collection costs. The counties collect property taxes on behalf of the city and other overlapping jurisdictions. Thus collection costs are shared among the various taxing entities. The city pays Jackson and Platte counties 1.6 percent, and Clay County 1.5 percent of taxes collected for collection and assessment. This process is also simpler for taxpayers because they only need to deal with one agency and one property tax bill.

State administration reduces local sales tax collection costs. City sales taxes are administered at the state level. Merchants collect the tax at the time of purchase, thus compliance is easy for taxpayers. The city's administrative costs are about 3 percent – the state assesses a 1 percent collection fee and pays merchants a collection fee of up to 2 percent depending on the timeliness of remittance. The state removes these fees before distributing revenue to the city.

Utility taxes remitted by a few entities. The Finance Department's revenue division collects utility taxes. The small number of entities paying the tax makes the tax easy for the city to administer.

Occupation licenses are administratively costly. While the city's primary sources of tax revenue are relatively efficient, the city's occupation license is relatively inefficient to administer and difficult for taxpayers to comply with and understand. The city code identifies types of businesses that must be licensed. This listing has not been updated since the 1950s; newer types of businesses are not required to pay license fees. The base and rates vary – the code contains over 130 license fee schedules. The Finance Department estimates that administrative costs are 5 percent of collections.

Higher Taxes Could Influence Location Decisions

Imposition of an earnings tax and relatively high sales tax rates could affect businesses' and residents' decisions about where to locate or shop. Relatively low property tax rates and the balance of different revenue sources lessen this likelihood to some extent. Tax rates are one of many factors that influence location decisions. Some research suggests that the quantity and quality of local government services may more strongly affect business and residential location decisions than tax rates.

All taxes result in some degree of economic distortion as people change their behavior to avoid taxes. The goal for policy-makers is to implement tax policies that minimize these distortions. A balance of revenue sources lessens the likelihood of unintended economic distortions because rates of individual taxes can be fairly low.

Sales tax rates are relatively high. Sales tax rates are high in the city compared to other metropolitan area cities. Sales tax rates are highest in Lee's Summit, followed by Kansas City, and Gladstone. (See Exhibit 5.) The total sales tax rate includes sales taxes imposed by the city, county, and state. Because sales tax rates are higher in the city compared to most of the surrounding cities, it is possible that the tax differential could encourage persons to shop outside the city, particularly for large ticket items. However, the differences are small in absolute terms and are unlikely to affect most decisions about where to locate or shop. The lower tax rates on food in Missouri may encourage shopping on the Missouri side of the border.⁵ However, such an economic effect is likely to be substantial only for shoppers close to the state line.

⁵ Missouri has reduced sales tax rates on food. Kansas offers a food sales tax refund to residents with an adjusted gross income of \$25,000 or less and are either 55 years of age or older; totally and permanently disabled or blind; or had at least one dependent child who can be claimed as a dependent for the entire year.

Exhibit 5. Sales Tax Rates in the Kansas City Area

| City | County | Sales | Food |
|--------------------|----------------|---------------|---------------|
| Lee's Summit | Cass | 7.600% | 4.600% |
| Lee's Summit | Jackson | 7.475% | 4.475% |
| Kansas City | Platte | 7.350% | 4.350% |
| Kansas City | Cass | 7.225% | 4.225% |
| Kansas City | Clay | 7.225% | 4.225% |
| Gladstone | Clay | 7.225% | 4.225% |
| Kansas City | Jackson | 7.100% | 4.100% |
| Grandview | Jackson | 7.100% | 4.100% |
| Olathe | Johnson | 7.000% | |
| Overland Park | Johnson | 7.000% | |
| Kansas City, KS | Wyandotte | 6.900% | |
| Leawood | Johnson | 6.875% | |
| Shawnee | Johnson | 6.875% | |
| Lenexa | Johnson | 6.875% | |
| Merriam | Johnson | 6.875% | |
| Prairie Village | Johnson | 6.875% | |
| Liberty | Clay | 6.725% | 3.725% |
| Independence | Clay | 6.725% | 3.725% |
| Independence | Jackson | 6.600% | 3.600% |
| Blue Springs | Jackson | 6.600% | 3.600% |
| Raytown | Jackson | 6.350% | 3.350% |
| Average | | 6.980% | |
| Median | | 6.900% | |

Sources: Missouri Department of Revenue Sales/Use Tax Rate Table April through June 2000; Kansas Sales Tax Jurisdiction Code Booklet (revised 2/00).

The city's earnings tax may affect some people's decisions about where to live or work. The city imposes a one percent tax on earnings of residents and earnings of nonresidents who work in the city. No other city in the metropolitan area imposes an earnings tax. The tax may influence people's decisions about where to live or work if they wish to avoid the tax. The tax could also affect business decisions about where to locate. However, tax rates are only one factor that could influence location decisions.

The city's property tax rates are relatively low. Kansas City's property tax rates are relatively low. The city's effective levies for commercial and residential property are below the median of the 10 cities we reviewed. While the overlapping rate for commercial property is below the median, the overlapping residential rate is above the median. Relatively low property tax rates could offset potential affects of the earnings tax. (See Exhibit 6.)

Exhibit 6. Effective Property Tax Levies (Per \$1,000 Market Value)⁶

| Jurisdiction | City Rate | | Overlapping Rate | |
|--------------------------|-------------|-------------|------------------|--------------|
| | Residential | Commercial | Residential | Commercial |
| Lee's Summit | 3.10 | 5.22 | 14.62 | 24.62 |
| St. Louis | 2.76 | 4.64 | 13.57 | 22.85 |
| Wichita | 3.61 | 7.85 | 12.89 | 28.03 |
| Kansas City | 2.58 | 4.35 | 12.81 | 21.57 |
| Olathe | 2.88 | 6.26 | 12.56 | 27.31 |
| Independence | 1.43 | 2.40 | 12.09 | 20.36 |
| Leawood | 2.70 | 5.86 | 11.82 | 25.69 |
| Overland Park | 0.98 | 2.13 | 10.58 | 22.99 |
| Oklahoma City | 1.53 | 1.53 | 10.54 | 10.54 |
| Unified Government (KCK) | 3.17 | 6.88 | 9.57 | 20.80 |
| Median | 2.73 | 4.93 | 12.33 | 22.92 |

Sources: City and county financial reports.

Some City Taxes Are Regressive

Some of the city's taxes are regressive – falling more heavily on people with lower incomes. Literature identifies two facets of equity in taxation: the benefits principle and ability to pay. The benefits principle means that people pay taxes relative to the benefits received from government services. Ability to pay considers whether the tax structure imposes similar tax burdens on individuals and businesses in similar circumstances and whether tax burdens are proportional or progressive with respect to income.

Sales and utility taxes are regressive. Sales and utility taxes are regressive because low-income households spend a relatively larger portion of their incomes on taxable goods and utilities. Missouri's reduced sales tax rate for food purchases reduces the burden on lower-income families to some extent. The primary rationale for both sales and utility taxes are to diversify the tax base and avoid over-reliance on property taxes. Sales taxes are consistent with the benefits principle because businesses and people who shop in the city use and benefit from city services. Kansas City sales taxes are dedicated to capital improvements and public transportation.

Commercial customers account for about half of the city's utility tax base. Nearly 60 percent of utility taxes were based on electricity in tax year 1998, the bulk of which was paid by commercial and industrial users (69%). The gas tax was mostly borne by residents (63.5%); taxes paid on natural gas amounted to 17.5 percent of the utility tax base. (See Exhibit 7.)

⁶ We adjusted property tax rates to account for different assessment levels in Missouri, Kansas, and Oklahoma.

Exhibit 7. Utility Tax Liability – Tax Year 1998

| Utility | Residential | Commercial | Industrial | CATV | Total | Percent |
|--------------|--------------|--------------|-------------|-------------|--------------|---------|
| Electric | \$12,489,210 | \$23,152,846 | \$4,073,956 | N/A | \$39,716,012 | 57.6% |
| Telephone | 5,985,465 | 7,913,332 | 0 | N/A | 13,898,797 | 20.2% |
| Gas | 7,674,349 | 4,369,163 | 45,047 | N/A | 12,088,559 | 17.5% |
| CATV | N/A | N/A | N/A | \$2,941,965 | 2,941,965 | 4.3% |
| Steam | 0 | 278,095 | 0 | N/A | 278,095 | 0.4% |
| Total | \$26,149,024 | \$35,713,436 | \$4,119,003 | \$2,941,965 | \$68,923,428 | 100.0% |
| % of Overall | 37.9% | 51.8% | 6.0% | 4.3% | | |

| | Residential | Commercial | Industrial | Total |
|-----------|-------------|------------|------------|--------|
| Electric | 31.4% | 58.3% | 10.3% | 100.0% |
| Telephone | 43.1% | 56.9% | 0.0% | 100.0% |
| Gas | 63.5% | 36.1% | 0.4% | 100.0% |
| Steam | 0.0% | 100.0% | 0.0% | 100.0% |

Source: Finance Department June 14, 2000.

The earnings tax is somewhat regressive. The earnings tax is somewhat regressive because earnings account for a relatively larger proportion of lower and middle-income families' income. An income tax with proportional or progressive rates would not be regressive, but would be more expensive to administer and more complicated for taxpayers. Earnings taxes are consistent with the benefits principle because people who work, as well as live, in the city use and benefit from city services.

Property taxes are equitable. Property taxes often are considered equitable because the amount of taxes paid increases as the value of the property increases. Property taxes are also consistent with the benefits principle because people who live in the city use and benefit from city services. However, the property tax has been unpopular, stimulating numerous tax reforms. The property tax may tax unrealized capital gains or property owners may perceive assessments as unfair.

Financial Reporting Provides Accountability

The city publicly reports tax revenues collected and how the revenues are used. The Finance Department issues reports comparing Kansas City's tax burden to that of other cities. Accountability for use of tax dollars is a characteristic of a good tax system. Reliable reporting allows citizens and elected officials to make informed decisions.

The Comprehensive Annual Financial Report shows how tax revenues were spent. The Finance Department issues the Comprehensive Annual Financial Report (CAFR) as a tool to provide

accountability in the reporting of tax revenues and their use. The City Auditor's Office certifies that each city fund is accurately reported in the CAFR before it is presented to the City Council. The CAFR provides citizens and elected officials with information on the amount of taxes collected and how the city used these taxes.

The annual budget provides accountability. The city's annual budget tells citizens and elected officials the amount of tax revenue expected to be generated during the fiscal year and how the city anticipates using these revenues. The budget also shows tax revenue collections and expenditures for previous years and compares actual to budgeted revenues and expenditures.

Tax burden studies compare tax burdens between Kansas City and regional cities. The Finance Department periodically conducts tax burden studies to provide information to existing and potential residents about tax rates; to assist elected officials in making financial decisions; and to compare the city's tax burden to five local and five regional cities.

City's Fiscal Health Compares Favorably with Other Large Cities

Kansas City's fiscal health compares favorably with the large, urban cities we selected for comparison, but lags area suburban cities. Kansas City's economy is diverse and growing, providing a sound tax base. The city's revenue-raising capacity is relatively sound and the city faces less expenditure pressure than cities with higher poverty rates, higher unemployment rates, and lower household incomes.

Kansas City's Revenue-Raising Capacity Is Relatively Strong

Kansas City residents have a higher household income, lower poverty rate, and lower unemployment rate than their urban city counterparts. Kansas City's economy is diverse and growing, contributing to a strong tax base. About 40 percent of the metropolitan area jobs are in the city, allowing the city to export some taxes to nonresidents who also benefit from city services.

Population loss erodes tax base. Cities with a declining population lose tax base and face fiscal pressures as expenditures must be cut or increase per capita. The need for city services may not be reduced as population declines, especially if remaining residents have relatively lower incomes.

The population increased in the last 10 years. Kansas City's population has increased since 1990, reversing the trend of the 1980s.

Kansas City is the second largest city among our comparison cities, following Oklahoma City. St. Louis has lost a quarter of its population since 1980. (See Exhibit 8.)

Exhibit 8. City and Metropolitan Area Population

| Jurisdiction | 1980 | 1990 | 1998 | Change (80-90) | Change (90-98) | Change (80-98) |
|-------------------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Oklahoma City | 403,213 | 444,730 | 472,221 | 10.3% | 6.2% | 17.1% |
| Kansas City, MO | 448,159 | 435,131 | 441,574 | -2.9% | 1.5% | -1.5% |
| St. Louis | 453,085 | 396,685 | 339,316 | -12.4% | -14.5% | -25.1% |
| Wichita | 279,272 | 304,011 | 329,211 | 8.9% | 8.3% | 17.9% |
| Kansas City, KS | 161,087 | 149,768 | 141,297 | -7.0% | -5.7% | -12.3% |
| Overland Park | 81,784 | 111,790 | 139,685 | 36.7% | 25.0% | 70.8% |
| Independence | 111,806 | 112,301 | 116,832 | 0.4% | 4.0% | 4.5% |
| Olathe | 37,258 | 63,440 | 85,035 | 70.3% | 34.0% | 128.2% |
| Lee's Summit | 28,741 | 46,396 | 66,623 | 61.4% | 43.6% | 131.8% |
| Leawood | 13,360 | 19,693 | 25,886 | 47.4% | 31.4% | 93.8% |
| St. Louis, MO-IL MSA | 2,356,460 | 2,444,099 | 2,563,801 | 3.7% | 4.9% | 8.8% |
| Kansas City, MO-KS MSA | 1,327,106 | 1,566,280 | 1,737,025 | 18.0% | 10.9% | 30.9% |
| Oklahoma City, OK MSA | 834,088 | 958,839 | 1,038,999 | 15.0% | 8.4% | 24.6% |
| Wichita, KS MSA | 411,313 | 485,270 | 544,343 | 18.0% | 12.2% | 32.3% |

Source: U.S. Census Bureau.

The city's population as a proportion of the metropolitan area has declined. Both Wichita and Oklahoma City comprise a larger share of their metropolitan areas than Kansas City. (See Exhibit 9.)

Exhibit 9. Population as a Proportion of the Metropolitan Area

| Jurisdiction | % of Metro Population | | | Change | | |
|------------------------|-----------------------|--------------|--------------|---------------|---------------|--------------|
| | 1980 | 1990 | 1998 | 80-90 | 80-98 | 90-98 |
| Wichita | 67.9% | 62.6% | 60.5% | -7.7% | -10.9% | -3.5% |
| Oklahoma City | 48.3% | 46.4% | 45.4% | -4.1% | -6.0% | -2.0% |
| Kansas City, MO | 33.8% | 27.8% | 25.4% | -17.7% | -24.7% | -8.5% |
| St. Louis | 19.2% | 16.2% | 13.2% | -15.6% | -31.2% | -18.5% |
| Kansas City, KS | 12.1% | 9.6% | 8.1% | -21.2% | -33.0% | -14.9% |

Source: U.S. Census Bureau.

Larger cities must spend more for basic services. Cities with populations greater than 100,000 face more expenditure pressure than smaller cities as some services such as police protection exhibit diseconomies to population scale. When the central city is small in relation to its metropolitan area, the cost of central city services are higher as the city must spend more per capita on crime protection, traffic control, and other general services to keep up with the flow of people into and through the city. However, commuters bear some of the city's tax burden, increasing revenue-raising capacity.

Kansas City residents have higher incomes compared to other urban residents. Kansas City resident's relatively high income increases the city's revenue-raising capacity and eases expenditure pressures. Estimated household income in Kansas City is higher than the large, urban comparison cities, but lower than in area suburbs. (See Exhibit 10.)

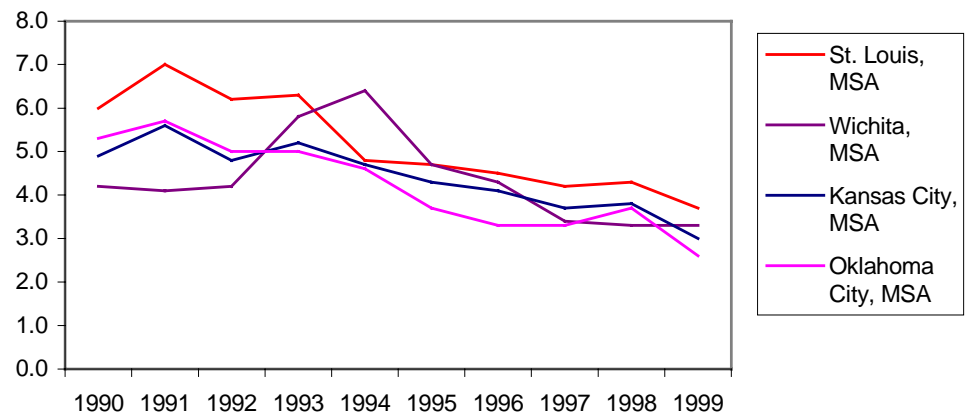
Exhibit 10. Median Household Income

| City | 1990 | 1998 |
|--------------------|---------------|---------------|
| Leawood | \$74,980 | \$94,390 |
| Overland Park | 44,246 | 55,700 |
| Lee's Summit | 38,800 | 55,134 |
| Olathe | 39,742 | 50,030 |
| Independence | 28,242 | 40,131 |
| Kansas City | 26,713 | 38,474 |
| Wichita | 28,024 | 33,758 |
| Oklahoma City | 25,741 | 35,158 |
| Kansas City, KS | 23,307 | 28,041 |
| St. Louis | 19,458 | 29,957 |

Source: U.S. Census Bureau; 1998 estimate is based on data from the Bureau of Economic Analysis.

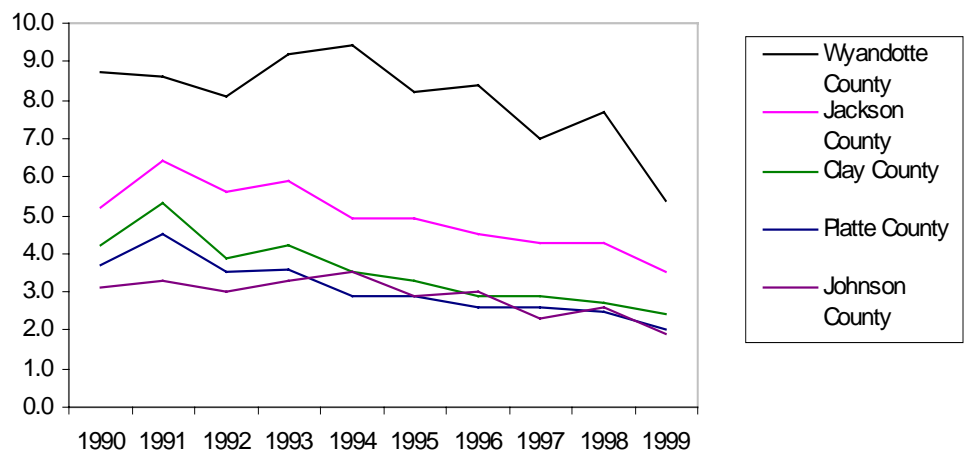
Kansas City's unemployment and poverty rates are comparatively low. Unemployment in the Kansas City metropolitan area is lower than St. Louis and Wichita, but higher than Oklahoma City. Within the metropolitan area, unemployment is lowest in Johnson, Platte, and Clay counties and highest in Wyandotte County. The proportion of Kansas City's population below poverty in 1980 and 1990 (the last year for which data are available) were lower than most of the comparative large, urban cities. Poverty and unemployment are associated with higher costs for public safety, health, social welfare, and housing. (See Exhibits 11,12 and 13.)

Exhibit 11. Unemployment Rate: Metropolitan Areas



Source: U.S. Bureau of Labor Statistics.

Exhibit 12. Unemployment Rate: Counties in Kansas City Metro Area



Source: U.S. Bureau of Labor Statistics.

Exhibit 13. Percent of Population Below Poverty, 1980 and 1990

| Jurisdiction | 1980 | Rank | 1990 | Rank |
|-----------------|------|------|------|------|
| St. Louis | 21.8 | 1 | 24.6 | 1 |
| Kansas City, KS | 14.4 | 2 | 17.9 | 2 |
| Oklahoma City | 12.0 | 4 | 15.9 | 3 |
| Kansas City | 13.2 | 3 | 15.3 | 4 |
| Wichita | 10.2 | 5 | 12.5 | 5 |
| Independence | 6.6 | 6 | 9.5 | 6 |
| Lee's Summit | 5.2 | 8 | 4.8 | 7 |
| Olathe | 5.3 | 7 | 4.1 | 8 |
| Overland Park | 2.8 | 9 | 2.8 | 9 |
| Leawood | 1.2 | 10 | 1.3 | 10 |

Source: U.S. Census Bureau.

Kansas City's economy is diverse and growing. Kansas City's economy is based on a variety of industries and has been expanding. Although Kansas City saw a decline in manufacturing during the 1990s, increases in the communication and service industries have offset this decline. City planners expect the emerging entertainment and network economies to provide additional economic growth. About 40 percent of the metropolitan area jobs are in the city. The number of jobs within the city has increased, although more slowly than in the metropolitan area.

Commuters are a mixed blessing. Commuters expand the city's revenue raising capacity, as commuters who work and shop in the city pay some of the city's taxes. However, commuters also add costs, increasing the need for services such as public safety and infrastructure. The Finance Department estimates that nonresidents pay over half of the earnings tax.⁷ (See Exhibit 14.)

Exhibit 14. Earnings Tax Liability - Tax Year 1998 (\$ Millions)

| | Zip Codes | | Nonresident/Other | Total |
|--------------|-----------|--------|-------------------|---------|
| | Pure | Split | | |
| Withholdings | \$26.7 | \$18.7 | \$53.8 | \$99.2 |
| Wage Earners | 2.0 | 1.2 | 0.4 | 3.6 |
| Total | \$28.7 | \$19.9 | \$54.2 | \$102.8 |
| Percent | 27.9% | 19.4% | 52.7% | 100% |

Source: Finance Department June 23, 2000.

Kansas City's Tax Effort Is High

While the city's tax base is sound, tax effort is relatively high, suggesting that the decision to increase taxes should be approached with caution. Kansas City's total tax effort is the highest among the cities we selected for comparison.

Tax Effort Is High

Kansas City's tax effort is the highest among the cities we selected for comparison and is about 41 percent higher than the ten-city median. Kansas City's taxable resources – measured as the sum of household and business income – are the highest among the comparison cities and rank third per capita. (See Exhibits 15 and 16.)

⁷ Estimates of earnings tax liability are based on zip codes from W2 forms. The nonresident/other column includes amounts from unspecified or improper zip codes. According to Finance, these earnings tax liabilities are less than actual collections because W2 information and wage earner returns are not received for all submitted tax payments.

Exhibit 15. Local Tax Effort in Kansas City and Nine Comparison Cities, 1999 (\$ Million)

| Jurisdiction | Total Local Taxes | Net Household Income | Net Business Income | Non-resident Taxable Earnings | City Taxable Resources (CTR) | Local Taxes per \$100 CTR |
|---------------------|-------------------|----------------------|---------------------|-------------------------------|------------------------------|---------------------------|
| Kansas City | \$807 | \$5,290 | \$3,911 | \$49 | \$9,249 | \$8.72 |
| Unified Govt. (KCK) | 176 | 1,493 | 719 | | 2,212 | 7.95 |
| St. Louis | 516 | 3,478 | 3,239 | 57 | 6,774 | 7.61 |
| Lee's Summit | 96 | 950 | 314 | | 1,264 | 7.59 |
| Olathe | 108 | 1,204 | 504 | | 1,709 | 6.31 |
| Oklahoma City | 491 | 5,256 | 2,804 | | 8,061 | 6.09 |
| Leawood | 53 | 701 | 177 | | 878 | 5.98 |
| Overland Park | 255 | 2,666 | 1,752 | | 4,418 | 5.77 |
| Wichita | 328 | 3,971 | 1,895 | | 5,865 | 5.60 |
| Independence | 108 | 1,379 | 604 | | 1,983 | 5.45 |
| Average | | | | | | 6.71 |
| Median | | | | | | 6.20 |

Sources: City and county financial reports; data from the U.S. Census Bureau and Bureau of Economic Analysis.

Exhibit 16. City Taxable Resources Per Capita

| Jurisdiction | City Taxable Resources (\$ Millions) | Rank | City Taxable Resources Per Capita | Rank |
|---------------------|--------------------------------------|----------|-----------------------------------|----------|
| Leawood | \$ 878 | 10 | \$33,906 | 1 |
| Overland Park | 4,418 | 5 | 31,629 | 2 |
| Kansas City | 9,249 | 1 | 20,946 | 3 |
| Olathe | 1,709 | 8 | 20,094 | 4 |
| St. Louis | 6,774 | 3 | 19,963 | 5 |
| Lee's Summit | 1,264 | 9 | 18,976 | 6 |
| Wichita | 5,865 | 4 | 17,817 | 7 |
| Oklahoma City | 8,061 | 2 | 17,069 | 8 |
| Independence | 1,983 | 7 | 16,973 | 9 |
| Unified Govt. (KCK) | 2,212 | 6 | 14,479 | 10 |

Sources: City and county financial reports; data from the U.S. Census Bureau and Bureau of Economic Analysis.

Relatively high tax effort is not necessarily good or bad. Tax effort measures taxes collected relative to a city's capacity to generate revenue. It does not consider the mix of services provided or other funding mechanisms. For example, a city's tax effort will be higher if the city chooses to rely on taxes rather than fees to pay for city services. A higher tax effort is not necessarily bad if the city's residents choose a higher level of government services. Likewise, a lower tax effort is not necessarily good if the city has unmet needs. A relatively high tax effort can be considered a constraint, suggesting that increases in taxes should be approached with caution.

Tax effort includes taxes residents paid to overlapping local jurisdictions. City taxes account for a little more than half of the local taxes collected in Kansas City, while school districts account for about 28 percent. School districts accounted for the largest portion of suburban cities' local tax collection. St. Louis and Unified Government of Wyandotte County do not have overlapping counties. (See Exhibit 17.) We did not include taxes paid to the state and federal governments. According to U.S. Census Bureau data, Missouri, Kansas, and Oklahoma rank 47, 41 and 38, respectively, in 1998 state government expenditures per capita; and 40, 21, and 32, respectively in 1998 state tax revenue.

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Exhibit 17. Total Local Taxes, Fiscal Year 1999 (\$ Thousands)

| | | Property | Sales/Use | Earnings/ Profit | Franchise | Hotel/ Restaurant | Utility | Other | Total | Share of Total |
|------------------------------|--------|----------|-----------|---------------------|-----------|----------------------|---------|--------|---------|-------------------|
| Kansas City, MO | City | 69,146 | 105,232 | 145,694 | 14,219 | 22,970 | 69,688 | 19,613 | 446,562 | 55.4% |
| | County | 39,639 | 63,735 | | | | | 4,044 | 107,418 | 13.3% |
| | School | 228,670 | | | | | | | 228,670 | 28.3% |
| | Other | 23,948 | | | | | | | 23,948 | 3.0% |
| | Total | 361,403 | 168,967 | 145,694 | 14,219 | 22,970 | 69,688 | 23,657 | 806,598 | 100.0% |
| St. Louis, MO | City | 41,421 | 92,465 | 123,014 | 53,456 | 8,950 | | 45,586 | 364,892 | 70.8% |
| | County | | | | | | | | | |
| | School | 120,193 | | | | | | | 120,193 | 23.3% |
| | Other | 30,498 | | | | | | | 30,498 | 5.9% |
| | Total | 192,112 | 92,465 | 123,014 | 53,456 | 8,950 | | 45,586 | 515,583 | 100.0% |
| Oklahoma City, OK | City | 29,827 | 254,757 | | | 2,178 | | 6,897 | 293,659 | 59.9% |
| | County | 44,908 | 442 | | | | | | 45,350 | 9.2% |
| | School | 151,612 | | | | | | | 151,612 | 30.9% |
| | Other | | | | | | | | | |
| | Total | 226,347 | 255,199 | | | 2,178 | | 6,897 | 490,621 | 100.0% |
| Wichita, KS | City | 54,019 | 38,238 | | 27,636 | 4,140 | 3,337 | 9,547 | 136,917 | 41.7% |
| | County | 54,499 | 18,912 | | | 30 | | 13,635 | 87,076 | 26.5% |
| | School | 74,110 | | | | | | | 74,110 | 22.6% |
| | Other | 30,342 | | | | | | | 30,342 | 9.2% |
| | Total | 212,970 | 57,150 | | 27,636 | 4,170 | 3,337 | 23,182 | 328,445 | 100.0% |
| Overland Park, KS | City | 17,947 | 41,953 | | 6,570 | 4,229 | | 1,962 | 72,661 | 28.5% |
| | County | 29,158 | 18,624 | | | | | 371 | 48,153 | 18.9% |
| | School | 116,405 | | | | | | | 116,405 | 45.7% |
| | Other | 17,559 | | | | | | | 17,559 | 6.9% |
| | Total | 181,069 | 60,577 | | 6,570 | 4,229 | | 2,333 | 254,778 | 100.0% |
| Independence, MO | City | 6,748 | 18,479 | | 5,662 | 424 | 8,358 | 580 | 40,251 | 37.3% |
| | County | 5,308 | 8,321 | | | | | 670 | 14,299 | 13.2% |
| | School | 48,212 | | | | | | | 48,212 | 44.6% |
| | Other | 5,240 | | | | | | | 5,240 | 4.9% |
| | Total | 65,508 | 26,800 | | 5,662 | 424 | 8,358 | 1,250 | 108,002 | 100.0% |
| Unified Government, KS | City | 60,918 | 26,947 | | 15,263 | 207 | 10,495 | 7,144 | 120,974 | 68.8% |
| | County | | | | | | | | | |
| | School | 54,914 | | | | | | | 54,914 | 31.2% |
| | Other | | | | | | | | | |
| | Total | 115,832 | 26,947 | | 15,263 | 207 | 10,495 | 7,144 | 175,888 | 100.0% |
| Leawood, KS | City | 8,425 | 3,967 | | 1,716 | | | 467 | 14,575 | 27.8% |
| | County | 6,253 | 1,876 | | | | | 37 | 8,166 | 15.6% |
| | School | 25,979 | | | | | | | 25,979 | 49.5% |
| | Other | 3,786 | | | | | | | 3,786 | 7.2% |
| | Total | 44,443 | 5,843 | | 1,716 | | | 504 | 52,506 | 100.0% |

Analysis

| | | | | | | | | |
|---------------------|--------|--------|--------|-------|-------|-------|---------|--------|
| Olathe, KS | City | 13,470 | 22,956 | 4,788 | 393 | 552 | 42,159 | 39.1% |
| | County | 10,878 | 5,361 | | | 107 | 16,346 | 15.2% |
| | School | 49,355 | | | | | 49,355 | 45.8% |
| | Other | 2,681 | | | | | 2,681 | 2.5% |
| | Total | 73,703 | 28,317 | 4,788 | 393 | 659 | 107,860 | 100.0% |
| Lee's Summit, MO | City | 13,554 | 16,131 | 202 | 5,057 | 2,364 | 37,308 | 38.9% |
| | County | 4,553 | 4,326 | | | 348 | 9,227 | 9.6% |
| | School | 44,709 | | | | | 44,709 | 46.6% |
| | Other | 4,743 | | | | | 4,743 | 4.9% |
| | Total | 67,559 | 20,457 | 202 | 5,057 | 2,712 | 95,987 | 100.0% |

Sources: City and county financial reports.

Appendix A

Methodology

We estimated tax effort for Kansas City and the nine comparison cities generally following the method developed by the New York City Independent Budget Office (IBO) in their February 2000 report, *Taxing Metropolis: Tax Effort and Tax Capacity in Large U.S. Cities*. Because we used different sources of data and a different method to estimate the household income portion of city taxable resources, our estimates are not directly comparable to the IBO study.

Measuring Relative Capacity to Pay Taxes

Tax effort considers the overall level of taxation as a proportion of a city's capacity to generate revenue. The concept of capacity to generate revenue is broader than a city's tax base because capacity does not depend on the particular tax structure that is in place. A city's tax structure reflects policy choices on how to tap into the capacity to generate revenue.

To measure city tax capacity, IBO developed a measure of *city taxable resources* (CTR), analogous to the U.S. Treasury Department's measure of *total taxable resources* (TTR) at the state level. TTR is intended to capture the effects of tax exporting and is, therefore, a better measure of tax capacity than per capita income or state gross product, which are other methods of estimating tax effort. Similarly, CTR incorporates a city's ability to export taxes to nonresidents.

CTR is the sum of household income and net business income in a city. As such, CTR is a function of people's decisions about where to live, where to locate a business, and where to shop. We also included the taxable portion of nonresident earnings in our estimate of CTR for St. Louis and Kansas City.⁸ St. Louis and Kansas City are the only cities in our sample that collect earnings tax – the tax is assessed on city residents regardless of where they work and nonresidents who work in the city.

Net business income. The net business income component of CTR measures property income and indirect business tax net of cost of goods sold and federal taxes. City level data are not available. We used the same method as IBO to estimate city net business income based primarily on state and county level data.

Property income and indirect business tax are components of Gross State Product available from the U.S. Department of Commerce's Bureau of Economic Analysis. We estimated the proportion of earnings absorbed

⁸ IBO excluded income taxes collected from nonresidents in their calculation of local taxes collected. Our method of adding the estimated taxable portion of nonresident earnings to the base has the effect of at least partially netting these revenues out of tax effort, without understating revenues collected.

by cost of goods sold and federal income taxes by industry using data from the Internal Revenue Service Statistics of Income reports.

We estimated the county share of net business income based on the ratio of county to state earnings by industry, also available from the Bureau of Economic Analysis. We then allocated net business income to the city level based on the ratio of city to county assessed commercial valuation.

Net household income. The household income component of CTR measures wage or salary income plus other types of income such as social security, retirement, welfare, or disability, net of payroll deductions and federal income taxes. We excluded income from self-employment and dividends because these are included as business income.

IBO derived household income from March 1998 Current Population Survey (CPS). Because CPS data are not available for the cities in our analysis, we estimated income based on 1990 Census data. IBO's income definition is larger – therefore, tax effort we calculate is relatively higher.

Our income estimate does not include the following components that the IBO included: net capital gains; employer contributions; the value of Medicare, Medicaid, and non-cash government payments; and the imputed return on home equity. Our income estimate includes inter-household transfers and state- and local-financed transfers and benefits, which IBO excluded.

We estimated per capita city income net of federal income and payroll taxes from 1990 Census data. We estimated the portion of income paid in federal income and payroll taxes from IRS data. We then assumed growth in income to be equal to the change in per capita personal income at the county level (available from the Bureau of Economic Analysis) times the change in city population (available from the Census Bureau). This method assumes that per capita change in income was the same throughout the county.

Nonresident taxable earnings. We estimated nonresident taxable earnings for St. Louis and Kansas City based on 1990 Census journey to work data. We estimated the change in the percent of nonresident workers to be equal to the change in the city's population as a percent of the metropolitan area. We assumed that the number of workers as a percent of population remained the same as the 1990 census. We estimated taxable earnings as one percent of the estimated number of

nonresident workers times the 1998 average wage for the metropolitan area from the Bureau of Economic Analysis.

Measuring Local Taxes Collected

We calculated tax effort based on total local taxes collected in a city, including city taxes and taxes paid by city residents to overlapping jurisdictions. Comparing the total local taxes paid rather than just city taxes compensates to some extent for different mixes of services provided in different jurisdictions.

Our primary source of data for taxes collected were city and county Comprehensive Annual Financial Reports (CAFRs) for fiscal year 1999. This was the most recent year for which data were available. The start of the fiscal year varied in different cities. We interviewed staff when necessary for clarification and also obtained some data from the state departments of revenue.

Definition of local tax. We counted city tax revenues in all funds. We considered taxes collected by the state to be local taxes if the distribution was based on economic activity occurring within the jurisdiction. Based on this definition, gaming taxes, while levied and collected by the state, are considered a local tax because they are paid to the port city based on admissions and gross receipts. Motor fuel taxes, while counted as tax revenue in some of the CAFRs, are considered intergovernmental aid because the distributions are based on population and miles of road rather than where the fuel was sold.

The city's portion of taxes paid to overlapping jurisdictions. To estimate the city portion of overlapping property taxes, we multiplied the levy rate times the portion of assessed valuation that overlapped. In some cases we needed to estimate the base using geographic area. We allocated the city's portion of county sales and other taxes based on the ratio of city to county commercial assessed valuation.